

URL: <https://stvp.stanford.edu/blog/videos/follow-the-business-model>

Rick Wallace shares the history of KLA-Tencor to show that it is important to follow one's business model. KLA revolutionized the industry by starting to charge for service instead of just offering it up for free. In order to enforce this, the founder had to risk losing IBM as a client. However, his bet paid off, and IBM finally agreed to pay for service. This has led to a large and profitable annuity stream for KLA-Tencor.



Transcript

Up until this time in our industry, service had been given away by the people that sold equipment.. And the reaction, how was the new sales pay for the service? And he wanted to change the business model because he viewed that service would be a drag on the P and L and the idea of charging for service would create a new business annuity inside of the business.. He was trying to get in IBM, sell the first machine in IBM.. The sales guy goes up to IBM.. It's February.. It's Burlington, Vermont.. And a guy calls back and said, "Ken, I got good news and bad news." Good news is they're ready to buy.. He finally cracked the idea.. Now, IBM at this time is 25% of the market.. They make their own equipment..

It's a huge accomplishment.. He'd never sold anything to IBM before.. And the sales guy goes, "Downside is that they're not going to pay for service.. It's not going to work." And Ken says, "Hold up there." And the guy says, "Yeah it's February, Ken." "You got a coat? Put it on.. Leave." He didn't want to take the business unless he got the service contract because he knew once he gave away the service contract, he would never get another chance to sell it to IBM.. He got the service contract and the rest of the companies then followed and the rest of the industry then followed and I'd say, "Oh, you've really changed the dynamics in the equipment industry where service became something we charged for and created a huge annuity stream." Today, we do \$400 million in service a year and it's profitable for the company.. And it continues to grow.. So the point on this is when you make decisions and you may come early, they can have dramatic impact on where you're going and you have to have the vision in the sense of what are the things you're willing to tradeoff? What are the risks you're willing to take? And are you really willing to walk away from business in order to make your model work?..